Chapter Eleven: Retirement Benefits

TRS provides two types of retirement benefits. A **single-sum benefit** is payable at age 65 to a member with fewer than five years of service. An **annuity**, a series of regular monthly payments for life, is paid to a member who has five or more years of service credit and meets specific age requirements. Two types of annuities are available: retirement and reversionary.

Single-sum retirement benefit

A member who has fewer than five years of creditable service and taught after July 1, 1947, is eligible to receive a single-sum retirement benefit at age 65. The benefit is the actuarial equivalent of a life annuity consisting of 1.67 percent of the final average salary for each year of creditable service. To be eligible for this benefit, the member must terminate TRS-covered employment and complete a Single-Sum Retirement Benefit Application.

Upon receipt of the single-sum benefit, an individual may teach in positions covered by TRS without restriction. Contributions are not required. Because individuals who have received single-sum retirement benefits are not TRS annuitants, they may not participate in the Teachers' Retirement Insurance Program.

Retirement annuity

Eligibility

To be eligible to receive a monthly retirement annuity from TRS, a member must terminate TRS-covered employment and meet specific age and service requirements.

To establish termination of service, two conditions must be met. First, a member must formally resign from his or her teaching position. Second, he or she must wait 30 calendar days from the date of resignation before performing any post-retirement teaching for the same employer. The 30 calendar day wait period does not apply if the post-retirement teaching is for another employer. See Chapter 10, Post-Retirement Matters.

In addition to terminating service, the member must meet one of the following age and service credit requirements:

Years of Service	Age
5	62
10	60
20	55 **(discounted annuity or Early Retirement Option)**
35	55 *

* If a member is eligible to receive a retirement annuity of at least 74.6 percent of the final average salary and will reach age 55 between July 1 and December 31, TRS considers the member to have attained age 55 on the preceding June 1.

* TRS members who are employees of the State of Illinois may retire under the Rule of 85. Contact TRS for eligibility requirements.

If a member falls short of qualifying for a nondiscounted annuity, the Early Retirement Option is available to avoid a discounted annuity.

Under federal law, inactive members are required to take a TRS distribution at age 70½.

Annuity calculation

To determine the annuity, TRS uses either an actuarial annuity calculation or an average salary/service credit calculation, whichever results in a higher benefit. The actuarial calculation is based on interest and mortality rate factors that are subject to change. The average salary/service credit calculation, with terms defined in this section, yields a larger retirement annuity for most members with current or recent service. The maximum retirement benefit is 75 percent of the average salary. There is no limit on the actuarial annuity benefit.

Average salary is the average of the four highest consecutive annual salary rates within the last 10 years of creditable service. When less than one year of service credit is earned in a school year, actual earnings are used to compute average salary. When average salary is computed, the portion of salary increase from one year to the next that exceeds the previous year's full-time rate by more than 20 percent is excluded from the calculation. The 20 percent limitation applies only to service with the same employer. Consolidation of school districts does not constitute a new employer, therefore the 20 percent cap still applies.

Years of creditable service determine the percentage of the average salary to which the member is entitled. For years of **service prior to July 1998** that have not been upgraded to the 2.2 benefit formula, members are entitled to the following percentage credit:

1.67 percent for each of the first 10 years
1.9 percent for each of the second 10 years
2.1 percent for each of the third 10 years
2.3 percent for each year over 30 years of service

For **post-June 1998 service**, the member receives 2.2 percent for each year of service.

A special provision governs members who had at least 24 years of service credit as of July 1, 1998. If a member does not upgrade to the 2.2 percent rate and had at least 24 years of service prior to July 1998, he or she will receive 2.2 percent for each year of service earned after June 1998 up to 30 years and then 2.3 percent for each year of service over 30 years.

A member may upgrade all pre-July 1998 service to the 2.2 percent rate by making an additional contribution. The contribution is equal to 1 percent times the member's highest salary rate in the four consecutive school years immediately prior to, but not including, the school year in which application is made for the upgrade times the number of years of creditable service earned prior to July 1, 1998, or 20, whichever is less. For information about receiving a refund or reduction of your 2.2 upgrade cost, see Chapter 9, Refunds and Cost Reductions.

Please refer members to the TRS Member Services Division at (800) 877-7896 for estimates of their retirement benefits.

How to estimate an upgrade contribution

Step 1 Determine which is less, the member's pre-July 1998 service credit or 20 years. Do not include any sick leave credit.

Assume the member had 31.405 years of service credit as of June 30, 1998.

Step 2 Multiply the service credit from Step 1 by 1% (.01).

Years of service credit	20.000
Factor	x .01
Upgrade percentage	.20

Step 3 Determine the highest salary rate in the four consecutive school years immediately prior to, but not including, the school year in which the application occurs.

Assume the upgrade application is received in May 2003.

Choose from:

99-00	$33,000
00-01	$35,000
01-02	$37,500
02-03	$39,000

Step 4 Multiply the salary rate in Step 3 by the percentage factor in Step 2.

Salary rate	$39,000
Percentage factor	X .20
Upgrade contribution	$ 7,800

How to estimate average salary

To compute the member's final average salary, review the past 10 years of service to find the highest four consecutive salaries. Add the salaries of the consecutive full or partial years used that total four years, then divide the sum by four to determine the average.

Example:

Year	Service Credit	Salary Rate
00-01	1.000	$ 33,000
01-02	1.000	35,500
02-03	1.000	37,000
03-04	1.000	41,000
	4.000	$146,500
		÷ 4
	Average salary	$36,625

Example:

Service credit in 2003-04 is determined by dividing the number of days paid by 170 (130 ÷ 170 = 0.765). When any of the years used in the calculation of final average salary is a partial year, actual earnings and earnings credit are used in the calculation of final average salary. In this example, to obtain four full years of earnings, the salary rate in the fourth preceding year (1999-2000) is multiplied by one minus the earnings credit for the final year. The earnings credit for the school term 2003-04 is computed by dividing days paid by the number of contract days in the school term or employment agreement, if longer.

Year	Service Credit	Earnings Credit	Salary Rate	Earnings	Average Salary
99-00	1.000	0.297	$24,800.00	$24,800.00	$7,365.60(b)
00-01	1.000	1.000	26,500.00	26,500.00	26,500.00
01-02	1.000	1.000	27,200.00	27,200.00	27,200.00
02-03	1.000	1.000	28,575.00	28,575.00	28,575.00
03-04	0.765	0.703(a)	30,000.00	24,000.00	24,000.00
					$113,640.60
					÷ 4
				Average Salary	$28,410.15

(a) 130 ÷ 185 = .703 earnings credit
(b) 1 - .703 = .297
$24,800 X .297 = $7,365.60

Example:

The salary of $41,000 for the 2003-04 year exceeds the 2002-03 salary by more than 20 percent. To compute the maximum salary that can be used in calculating the average, multiply the prior year's salary by 120 percent (1.20).

$34,000 X 1.20 = $40,800 maximum

Year	Service Credit	Salary Rate	Average Salary
00-01	1.000	$30,000.00	$30,000.00
01-02	1.000	32,000.00	32,000.00
02-03	1.000	34,000.00	34,000.00
03-04	1.000	41,000.00	40,800.00
			$136,800.00
			÷ 4
		Average salary	$34,200

How to estimate a retirement annuity

Example:

Step 1 Calculate average salary. The average salary is $36,625 (see previous "How to estimate average salary" example)

Step 2 Determine the years of service factor.

32.405 years of service credit and all of the pre-July 1998 service credit is upgraded.

32.405 years X 2.2% = .712910

Step 3 Multiply the average salary times years of service factor. The result is an estimated yearly retirement annuity. Divide this number by 12 for the estimated monthly annuity.

Average salary	$36,625
Factor	X .712910
Annual annuity	$26,110.33
	÷ 12
Monthly annuity	$ 2,175.86

Exact age

When TRS requires proof of age, a birth certificate should be used. If a birth certificate is unavailable, the following documents may be submitted:

- military record
- marriage record showing date of birth
- evidence of Social Security payments that require attainment of a specific age
- church record of birth or baptism
- passport
- two or more documents showing birth dates, such as naturalization papers, insurance policies, school records, or medical records.

The following steps can be used to compute exact age. TRS uses the member's exact age to calculate a discounted annuity and the Early Retirement Option contributions.

Example

Step 1 Find the day and month the member plans to retire and the member's birthday and month on the Fraction of a Year table at the end of this chapter. The decimal number indicates the portion of a year beyond January 1.

Assume the member plans to retire June 4, 2004. This translates into the figure 2004.422 from the table. The member was born April 23, 1947. From the table, this is 1947.307.

Step 2 Subtract the figure that represents the member's birthday from the retirement date.

Retirement date	2004.422
Birthday	- 1947.307
Exact age	57.115

Discounted annuity

If the member retires between the ages of 55 and 60 with 20 or more years of service but fewer than 35 years of service, the annuity is reduced by 6 percent for each year (.005 per month) the member is under age 60. The member can avoid this reduction in the annuity if both the member and the employer make a one-time contribution to TRS. (See two sections ahead, "Early Retirement Option")

A discounted annuity is based on average salary, years of service, and age.

The following steps can be used to estimate a discounted retirement annuity:

Step 1 Complete the retirement annuity calculation. Find the member's exact age at retirement.

Step 2 Subtract the exact age from 60. Multiply the difference by .06 (6% per year that the annuity is discounted).

The annuity in this example is $26,110.33 and the member's exact age is 57.115.

	60.000
Exact age	- 57.115
	2.885
	X .06000
	.17310

Step 3 Subtract the result of Step 2 from 1.000 to obtain the age discount factor.

	1.000000
	- .17310
Age discount factor	.8269

Step 4 Multiply the age discount factor times the annuity to arrive at the discounted annuity. Then divide by 12 for the monthly annuity.

Retirement annuity	$26,110.33
Age discount factor	X .8269
Annual discounted annuity	$21,590.63
	÷ 12
Monthly discounted annuity	$ 1,799.22

Early Retirement Option

The Early Retirement Option (ERO) allows a member to avoid a discounted annuity. Originally set to expire in 1985, the ERO has been renewed every five years. **Currently, the ERO provision expires on June 30, 2005.**

To take advantage of the ERO, a member must be between the ages of 55 and 60 and have at least 20 but fewer than 35 years of service.

Under the ERO, the following conditions apply:

1. **The effective date of retirement must occur on or before June 30, 2005.** "Retirement" means that the member is receiving a retirement annuity. The member must resign from teaching prior to June 30, 2005.
2. Application for retirement must occur within six months of the last day of contributing service.
3. Members who are under age 55 when they cease teaching may use the Early Retirement Option if they attain age 55 and **retire within six months of the last day of service,** provided the retirement date is on or before June 30, 2005.

4. Substitute teachers must teach 85 or more days in their final school term with one employer to obligate that employer to make the early retirement contribution. The last day of teaching with that employer must be within six months of the date of application for retirement.
5. The member and the last employer must each make a one-time nonrefundable contribution to TRS. The contribution is a percentage of the highest annual salary rate in the years used to calculate average salary.

The member's percentage is calculated by multiplying 7 percent times the lesser of the following:

- the number of years of service under 35 years or
- the number of years the member's age is under 60.

The employer's percentage is calculated by multiplying 20 percent for each year or partial year the member is under age 60.

If the member has 34 but fewer than 35 years of service at retirement, the member's and employer's contributions are waived. The contributions can only be waived if the member is eligible for and retires using the Early Retirement Option (ERO).

Members occasionally need to work into July or August to become eligible for ERO or to retire under ERO with 34 years of service credit.

If a member is working a partial year to either

- become eligible for ERO or
- to retire under ERO with 34 years of service credit, which waives the employer and member ERO costs, the following condition must be met:
    - the member must be employed in a position requiring teacher certification under the Illinois School Code on a full-time (five days per week, four or more clock-hours daily) or part-time contractual (less than five days per week or less than four hours per day) basis for at least two consecutive weeks, or on a substitute or part-time noncontractual (daily or hourly) basis, working 85 or more days for the same employer within six months of the effective date of retirement.

This option may be limited at the discretion of the employer to a specified percentage, not lower than 30 percent, of all those eligible to retire under ERO provisions based on seniority in the service of that employer.

A member with 35 or more years of service who is between the ages of 55 and 60 qualifies for a nondiscounted annuity with no additional contributions required from either the member or employer.

Employer-paid **member** ERO contributions are not reportable as salary to TRS.

Member Early Retirement Option contribution

Calculate the member's Early Retirement Option contribution using the following steps.

Example:

Step 1 Determine the highest annual salary rate used in the computation of the final average salary. The highest annual salary rate used in the computation of final average salary for the member in this example is $41,000.

Step 2 Compute the number of years the member is under age 60 (see previous example "Exact age") and the number of years of service he or she has under 35 years. The lesser of these figures will be the member ERO factor.

The member in this example is 57.115 years of age and has 32.405 years of service.

	Age		**Service**
	60.000		35.000
Exact age	- 57.115	Actual years of service	- 32.405
Difference	2.885	**Difference**	2.595

Use the lesser of the two: 2.595.

Step 3 To compute the member ERO factor, multiply the member's percentage of 7 percent times 2.595.

Years of service under 35	2.595
7 percent	X .07
Member ERO factor	.18165

Step 4 Multiply the member ERO factor times the salary from Step 1. This is the member's Early Retirement Option contribution.

Highest salary	$41,000.00
Member ERO factor	X .18165
Member ERO contribution	$ 7,447.65

Employer's Early Retirement Option contribution

Use the following steps to calculate the employer's Early Retirement Option contribution.

Example:

Step 1 Multiply 20 percent times the number of years the member is under age 60 to obtain the employer ERO factor.

Years member is under age 60	2.885
20 percent	X .20
Employer factor	.577

Step 2 Multiply the employer ERO factor times the highest annual salary rate used in the calculation of average salary. This is the employer's ERO contribution.

Highest salary	$ 41,000.00
Employer factor	X .577
Employer's ERO contribution	$ 23,657.00

Reversionary annuity

Unless they elect otherwise, retiring members receive a **life annuity** from TRS. This pays a 100 percent benefit to the member and a 50 percent benefit to a surviving spouse, if any. This annuity provides the largest amount payable throughout the member's lifetime.

A member may elect a **reversionary annuity** as an alternative to a life annuity. If a reversionary annuity is elected, the member's life annuity is reduced to provide a monthly annuity for a surviving dependent beneficiary. Members designate this beneficiary on the Age Retirement Annuity Application. A dependent beneficiary includes a spouse, a child, or a parent or other person for whom the member provided more than 50 percent of that person's support in the last 12 months.

Members who are considering a reversionary annuity should request an estimate of both their annuity payment and the payment to their survivor.

The reversionary annuity is in addition to any death benefits paid by TRS. (See Chapter 13, for Death Benefits.) Members should note that one dependent beneficiary may be designated as the recipient of the payments from the reversionary annuity on the Age Retirement Annuity Application, while another may be designated to receive death and survivor benefits from TRS on the Member Information and Beneficiary Designation (MIBD) form.

The reversionary annuity may be revoked effective the first of the month following notification to TRS of the designated beneficiary's death. On this date, only monthly payments for the unreduced life annuity amount become payable to the annuitant. The reduction in monthly annuity is not made up to the retired member as a result of the beneficiary's death.

Application procedures

Members planning to retire should contact TRS approximately six to 12 weeks prior to their anticipated retirement date for a retirement application. TRS then reviews the member's record to verify:

- Amounts due to TRS for payment of optional service credit have been paid. These amounts should be paid prior to the final day of employment.
- Any out-of-system service to determine the amount creditable toward retirement. This is 2/5 of the member's total TRS service with a maximum of 10 years.
- The member meets the eligibility requirements to receive a retirement annuity.

Members are then sent the following personalized forms to review, sign, complete and return:

- Age Retirement Annuity Application
- Supplementary Report for each current employer (the member may have TRS send the Supplementary Report directly to their employer)
- Depository Agreement for TRS Benefit Payments (direct deposit application)
- Teachers' Retirement Insurance Program (TRIP) Enrollment Application

Retirement application for annuitants who re-enter TRS membership

If an annuitant resumes active TRS member status either through teaching before the statutory time limits have elapsed or by teaching beyond the statutory hour or day limitations (See Chapter 10, Post-Retirement Matters), he or she must submit a new retirement application to TRS when filing for retirement again.

If the annuitant re-enters service and retires after completing at least one year of service, at the time of the second retirement the annuity will be recomputed using the law in effect on the first retirement date. If the member establishes at least three years of creditable service after re-entry, the annuity will be recomputed based on any legislative amendments enacted between the member's first retirement and application for a second retirement annuity.

Effective date of retirement

A member must cease teaching and terminate TRS-covered employment to become eligible for a TRS retirement annuity.

A retirement annuity begins on the later of:

- the day following the last day that salary reportable to TRS is earned or
- on the day that the minimum qualifying service and age are attained.

Annuity payments

The first annuity payment should reach the member within approximately 60-90 days after receipt of all the completed forms and any payments owed TRS. Payments are mailed from the Office of the Comptroller on the last working day of each month. The payment received on the first of the month represents the annuity earned from the preceding month. TRS should be notified if the payment has not arrived by the 10th of the month.

To protect annuitants, the retirement annuity is suspended if two payments remain uncashed. Subsequent payments will be mailed when TRS learns the circumstances or whereabouts of the previous uncashed payments.

Direct deposit

Annuitants, beneficiaries, and disability recipients may have payments electronically deposited into a bank or financial institution. To authorize direct deposit of their benefit payments, the member and the member's financial institution must complete the Depository Agreement for TRS Benefit Payments form.

The completed form must be received by the 15th of the month for a change to be effective at the end of the month.

Mailing address

All TRS members and annuitants should keep a current home address on file with TRS so that correspondence and tax information can be mailed to their homes, even if they take advantage of the direct deposit arrangement. A change of address should bear the member's or annuitant's Social Security number and be received before the 10th of the month to reflect the change on the next annuity payment.

Automatic annual increases in annuity

Annuitants with at least one year of creditable service after August 1969 receive an annual 3 percent increase in the current annuity on the **later** of the following:

- January 1 following the attainment of age 61 or
- January 1 following the first anniversary in retirement.

Annuitants in retirement on July 1, 1969, who subsequently re-entered active TRS membership for at least one year also received this increase. This increase is effective in January of each year and is reflected in the payment received in February.

The first increase paid will include increases for the entire time the member has been in retirement. The first increase is calculated by determining the years that have elapsed since the member retired or reached age 55, whichever is later, and the effective date of the member's initial increase (see next example).

The member's original retirement annuity is then increased 3 percent for each year or partial year in retirement for all periods after 1978.

Annuitants who retired before July 1, 1969, and annuitants who retired after that date but who had no service after July 1969 are also eligible for post-retirement increases if they retired with either of the following:

- Five or more years of service if they retired at age 55 or thereafter, or
- 20 or more years of service if they retired prior to age 55 (on a disability retirement annuity).

These annuitants must make a one-time payment of 1 percent of the average monthly salary on which the original annuity was computed times the number of full years of creditable service or 1 percent of the original monthly annuity times the number of full years of creditable service if the original annuity was not computed on average salary. The additional contributions are required because members did not make contributions toward post-retirement increases prior to July 1, 1969.

The increase is payable the later of January 1 following attainment of age 65, January 1 following the first anniversary in retirement, or the first of the month following receipt of the qualifying contribution from the retired teacher.

Example:

(Applies to member retiring after 1978)

Step 1 Find the date the member will become eligible for the first increase. This is the later of the following:

January 1 following the attainment of age 61

January 1 following the first anniversary in retirement.

Assume the member was born March 16, 1941, and retired June 5, 2001. Add 61 to 1941 to obtain the year that the member will be age 61. January of the following year, the member will be eligible for the first increase.

$$\begin{array}{r} 1941 \\ \underline{+\ 61} \\ 2002 \end{array}$$

First eligible: January 1, 2003

Step 2 Find the fractional equivalent of the member's retirement date on the Fraction of a Year table at the end of this chapter. Find the number of years and partial years that will elapse between the member's retirement and the first increase.

Assume the member retired on June 5, 2001. June 5 on the table is .425. The exact retirement date is 2001.425. Subtract the retirement date from the year of eligibility.

First eligible	2003.000
Retirement date	2001.425
Years elapsed	1.575

Step 3 Multiply Step 2 by .03 (3 percent) to determine the factor for the first increase.

Years elapsed	1.575
3 percent	X .03
Factor for increase	.04725

Step 4 Multiply the member's original annuity by the factor in Step 3. Assume the original monthly annuity was $1,843.79

Original annuity	$1,843.79
Factor	X .04725
Initial increase	$87.12

Step 5 Add the amount of the initial increase to the original annuity to determine the new monthly annuity.

Original annuity	$1,843.79
Initial increase	+ $87.12
Annuity January 1, 2003	$1,930.91

Step 6 Multiply the current monthly annuity by 1.03 to find the monthly annuity for the following year.

Annuity January 1, 2003	$1,930.91
3 percent increase	X 1.03
Annuity January 1, 2004	$1,988.84

NOTE: *Some annuitants may receive an increase in their annuities prior to the initial post-retirement increase due to minimum annuity legislation. Annuitants affected will be notified by TRS.*

Reciprocal service
(40 ILCS 5 /20-101 et seq.)

Members who have service in more than one public retirement system in Illinois may qualify for enhanced retirement and survivor benefits by selecting a reciprocal retirement. The Illinois Retirement Systems Reciprocal Act allows members to use service credit in each system to the maximum advantage.

Reciprocity offers the following advantages:

- Service credit in any of the reciprocal systems may be used to meet service qualification requirements for a pension.
- The highest final average salary earned is used by each of the reciprocal systems to calculate the retirement benefit. This practice usually results in a higher benefit.
- Members may reinstate refunded service at a reciprocal system once they have established two years of service credit at another reciprocal system.

To be eligible for reciprocity, the member must have at least one year of service in two or more systems and his or her combined credit must meet the minimum service requirements of each system. Members may repay any refund taken from a reciprocal system before retiring and use the combined credit, but they must complete at least two years of service in any other system following the date of the refund.

If the service periods overlap, the reciprocal benefits will be adjusted proportionately. Members who have significant amounts of overlapping service may want to consider retiring independently under each system rather than using the Reciprocal Act.

Reciprocity applies only to retirement and survivor benefits. In most cases, it cannot be used for disability and insurance purposes.

Members wishing to select reciprocity must apply to each retirement system. The systems will then exchange information in order to determine the benefits payable. Once in payment status, the member will receive separate checks from each system. The use of reciprocity is entirely voluntary.

If a member is within three years of retirement, he or she may receive a reciprocal benefit estimate by contacting his or her current retirement system. That system will gather information from the other reciprocal systems and provide the member with a consolidated estimate.

In addition to TRS, systems under the Illinois Retirement Systems Reciprocal Act include:

- County Employees' Annuity and Benefit Fund of Cook County
- Forest Preserve District Employees' Annuity and Benefit Fund of Cook County
- General Assembly Retirement System
- Illinois Municipal Retirement Fund
- Judges' Retirement System
- Laborers' Annuity and Benefit Fund of Chicago
- Municipal Employees' Annuity and Benefit Fund of Chicago
- Park Employees' Annuity and Benefit Fund of Chicago
- Public School Teachers' Pension and Retirement Fund of Chicago
- Metropolitan Water Reclamation District Retirement Fund
- State Employees' Retirement System of Illinois
- State Universities Retirement System

Taxability of retirement benefits

Illinois income taxes

Illinois residents must file an Illinois income tax return; however, Illinois law exempts all TRS benefits from state income taxes. To claim this exemption, individuals should include the taxable benefit amount on the line designated "Federally taxed retirement and Social Security" on their Illinois 1040 Form and attach a copy of page one of the Internal Revenue Service Form 1040 to their Illinois income tax return.

Federal income taxes

Depending upon when the member began contributing to the retirement program and depending upon when the member became an annuitant, the determination of the taxability of the annuity payments will differ. Three time periods are important: annuities which began on or prior to July 1, 1986; annuities which began between July 2, 1986, and November 18, 1996, inclusively; and annuities which began after November 18, 1996. However, if a member began his or her membership with TRS after July 1, 1983, and if the member did not purchase optional service with after-tax contributions, then the full amount of the annuity which is received by the member is taxable under the federal Internal Revenue Code.

Each annuitant is sent an IRS Form 1099-R in January from the state comptroller. The 1099-R indicates the amount of the annuity paid during the preceding calendar year, the taxable portion determined by the appropriate method discussed below, and the amount that was withheld for federal income taxes.

Annuities which began on or prior to July 1, 1986

If the member's annuity starting date was on or prior to July 1, 1986, and the member did not recover his "cost" or "basis" in the annuity utilizing the Three-Year Rule, then the member must use the General Rule (described in the next section) to determine his or her taxability of the annuity payments received. If the member recovered his or her cost in the annuity under the Three-Year Rule, the member cannot use the General Rule or the Simplified General Rule because his or her payments are fully taxable. The General Rule is explained fully in IRS Publication 939.

Annuities which began between July 2, 1986, and November 18, 1996

If the member's annuity starting date was between July 2, 1986, and November 18, 1996, the cost recovery method used is known as the General Rule. Generally under the General Rule, every annuity payment contains taxable and nontaxable amounts. The nontaxable percentage of the annuity is based upon a complex calculation using the annuitant's age, life expectancy, previously-taxed contributions, expected annuity to be paid out and tax tables provided by the Internal Revenue Service. Annuitants are informed of the nontaxable percentage of each payment at the time of the first payment. In general, annuitants can expect that a significant portion of each annuity payment will be subject to federal income tax.

The nontaxable percentage of the annuity will remain constant for the life of the annuitant if the annuitant retired on or before December 31, 1986. For annuitants retiring after that date, the nontaxable percentage will remain constant only until previously-taxed contributions are completely recovered. Thereafter, the entire monthly payment is taxable. TRS advises annuitants when benefits become fully taxable.

In 1986, the Internal Revenue Service revised the life expectancy tables used in calculating the nontaxable portion of annuities under the General Rule. The new tables assume longer life expectancies; therefore, calculations based on those tables result in lower nontaxable portions of each annuity payment. Whenever possible, TRS uses a blend of the old and new tables to calculate the nontaxable amount. To take advantage of the blended calculation, the annuitant must have filed an election form with the federal tax return for the year the member retired. TRS provides annuitants with the necessary form after their date of retirement and before that year's federal income tax is due.

Additionally, some TRS benefit recipients may be eligible to use an alternate IRS-approved method of calculating the nontaxable portion of each annuity payment — the Simplified General Rule. Consult the Form 1040 instructions or IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule),* for more information.

Annuities which began after November 18, 1996

If the member's annuity starting date was after November 18, 1996, the cost recovery method which must generally be used is known as the new Simplified General Rule. Like the General Rule, under the Simplified General Rule, the taxibility of every annuity payment is based upon a more simplified set of assumptions. This new Simplified General Rule, which was codified by a provision of the Small Business Job Protection Act of 1996, is explained fully in IRS Publication 17, *Your Federal Income Tax.*

NOTE: This chapter presents possible tax treatment for distributions by TRS. Members, annuitants and beneficiaries must consult with their local office of the Internal Revenue Service or their professional tax advisor for assistance in computing tax liability and preparation of forms and tax returns. The Internal Revenue Service Form Distribution Center's phone number is (800) 829-3676.

FRACTION OF A YEAR TABLE

From beginning of year
(Beginning of day basis)

DATE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1	.000	.085	.162	.247	.329	.414	.496	.581	.666	.748	.833	.915
2	.003	.088	.164	.249	.332	.416	.499	.584	.668	.751	.836	.918
3	.005	.090	.167	.252	.334	.419	.501	.586	.671	.753	.838	.921
4	.008	.093	.170	.255	.337	.422	.504	.589	.674	.756	.841	.923
5	.011	.096	.173	.258	.340	.425	.507	.592	.677	.759	.844	.926
6	.014	.099	.175	.260	.342	.427	.510	.595	.679	.762	.847	.929
7	.016	.101	.178	.263	.345	.430	.512	.597	.682	.764	.849	.932
8	.019	.104	.181	.266	.348	.433	.515	.600	.685	.767	.852	.934
9	.022	.107	.184	.268	.351	.436	.518	.603	.688	.770	.855	.937
10	.025	.110	.186	.271	.353	.438	.521	.605	.690	.773	.858	.940
11	.027	.112	.189	.274	.356	.441	.523	.608	.693	.775	.860	.942
12	.030	.115	.192	.277	.359	.444	.526	.611	.696	.778	.863	.945
13	.033	.118	.195	.279	.362	.447	.529	.614	.699	.781	.866	.948
14	.036	.121	.197	.282	.364	.449	.532	.616	.701	.784	.868	.951
15	.038	.123	.200	.285	.367	.452	.534	.619	.704	.786	.871	.953
16	.041	.126	.203	.288	.370	.455	.537	.622	.707	.789	.874	.956
17	.044	.129	.205	.290	.373	.458	.540	.625	.710	.792	.877	.959
18	.047	.132	.208	.293	.375	.460	.542	.627	.712	.795	.879	.962
19	.049	.134	.211	.296	.378	.463	.545	.630	.715	.797	.882	.964
20	.052	.137	.214	.299	.381	.466	.548	.633	.718	.800	.885	.967
21	.055	.140	.216	.301	.384	.468	.551	.636	.721	.803	.888	.970
22	.058	.142	.219	.304	.386	.471	.553	.638	.723	.805	.890	.973
23	.060	.145	.222	.307	.389	.474	.556	.641	.726	.808	.893	.975
24	.063	.148	.225	.310	.392	.477	.559	.644	.729	.811	.896	.978
25	.066	.151	.227	.312	.395	.479	.562	.647	.732	.814	.899	.981
26	.068	.153	.230	.315	.397	.482	.564	.649	.734	.816	.901	.984
27	.071	.156	.233	.318	.400	.485	.567	.652	.737	.819	.904	.986
28	.074	.159	.236	.321	.403	.488	.570	.655	.740	.822	.907	.989
29	.077	.159	.238	.323	.405	.490	.573	.658	.742	.825	.910	.992
30	.079		.241	.326	.408	.493	.575	.660	.745	.827	.912	.995
31	.082		.244		.411		.578	.663		.830		.997